

Message Text

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ACTION EB-08

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E.O. 11652: N/A
TAGS: EMIN, BL
SUBJ: BOLIVIAN TIN INDUSTRY: INVESTMENT AND TAXATION

REF: STATE 8271

1. SUMMARY: BOLIVIA HAS INCREASED TIN PRODUCTION OVER
THE PAST SEVERAL YEARS AND THIS TREND IS
PROJECTED TO CONTINUE. TIN RESERVES ARE LIMITED BUT
TIN RESOURCES ARE CONSIDERED TO BE EXTENSIVE. THE GRADES OF
TIN ORES BEING MINED ARE DECREASING STEADILY AND NEW, SOMEWHAT
UNTRIED TECHNOLOGY (VOLATILIZATION) IS BEING INTRODUCED.
MINING TAXES ARE HIGH BUT TAX INCENTIVES FOR NEW PRODUCTION
ARE OFFERED BY THE GOB. THE GOB APPEARS RELUCTANT TO REDUCE
TAXES BECAUSE IT CONSIDERS THAT TAXES ARE ONE OF THE FEW
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DIRECT BENIFITS TO THE GOB RESULTING FROM THE EXTRACTIVE
INDUSTRIES. OUR ARGUMENT ABOUT HIGH TAXATION CURBING
PRODUCTION AND INVESTMENT IS ONLY PARTIALLY APPLICABLE TO
BOLIVIA. THE GOB, WHICH OWNS FACILITIES PRODUCING
70 PERCENT OF BOLIVIA'S TIN EXPORTS, IS MOTIVATED, AS
AN INVESTOR MORE BY BEFORE-TAX PROFITS THAN BY AFTER-
TAX PROFITS. INVESTMENT PROBLEMS TO PUBLIC AND PRIVATE

INVESTORS INCLUDE DIFFICULT TOPOGRAPHY AND LACK OF INFRASTRUCTURE. END SUMMARY.

2. BOLIVIAN TIN PRODUCTION: BOLIVIA INCREASED

TIN EXPORTS TO 31,350 MT (EST) IN 1977 TO OVER 30,355 MT IN 1976 OR BY 3.3 PERCENT. ESTIMATED PRODUCTION FOR 1978 IS 33,500 MT OR A FURTHER INCREASE OF 6.9 PERCENT (ASSUMING THERE ARE NO PROLONGED STRIKES IN THIS POLITICAL YEAR). COMIBOL AND THE SMALL MINERS HAVE INCREASED PRODUCTION BUT NOT THE MEDIUM MINERS.

3. TIN RESOURCES AND RESERVES: BOLIVIA HAS THE GEOLOGICAL POTENTIAL FOR FINDING IMPORTANT NEW TIN RESOURCES. AREAS WITH IMPORTANT POTENTIAL ARE: NORTHERN LA PAZ DEPARTMENT, THE CORDILLERA REAL, THE QUIMSA CRUZ AND THE DEPARTMENT OF POTOSI. THE IGS (BRITISH) IN COOPERATION WITH GEOBOL IS CARRYING OUT A GEOLOGICAL PROSPECTING PROGRAM ON THE BRAZILIAN SHIELD IN EASTERN BOLIVIA.

TIN RESOURCES IN BOLIVIA ARE VAST, ALTHOUGH TIN RESERVES ARE LIMITED CONSIDERING THE LARGE NUMBER OF TIN MINES OPERATING IN THE COUNTRY (OVER 2,500 MINES). AVAILABLE DATA FROM COMIBOL AND EIGHT LARGE MEDIUM MINING COMPANIES SHOW A TOTAL OF 683,700 MT OF FINE TIN FOR MEASURED AND PROBABLY RESERVES, ADDING TO THESE 20 PERCENT MORE FOR OTHER MEDIUM AND SMALL MINES, THE TOTAL FIGURE IS 820,400 MT OF FINE TIN. COMIBOL'S RESERVES ACCOUNT FOR 68 PERCENT OF THE TOTAL FIGURE. COMIBOL'S LIMITED OFFICIAL USE

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UNDERGROUND MINE RESERVES AMOUNT TO 207,000 MT OF FINE TIN (19,715,000 MT WITH 1.05 PERCENT TIN). SURFACE RESERVES THAT INCLUDE TAILINGS, DUMPS, ETC., AMOUNT TO 345,000 MT (181,579,000 MT WITH 0.19 PERCENT TIN). COMIBOL'S MILLS TREAT A YEARLY AVERAGE OF 2,500,000 MT OF RUN OF MINE ORE WITH A MILL HEAD AVERAGE GRADE OF 0.78 PERCENT OF TIN AND A RECOVERY AVERAGE PERCENTAGE OF 62 PERCENT. MILL HEADS HAVE STEADILY GONE DOWN; FOR EXAMPLE, 1972--1.03 PERCENT, 1975-0.88 PERCENT AND 1977--0.78 PERCENT. THIS SHOWS A YEARLY AVERAGE DROP OF 12 PERCENT. TO COMPENSATE THIS DECREASE IN MILL HEADS, THE RUN OF MINE ORE HAS INCREASED BY AN AVERAGE OF 14 PERCENT EVERY YEAR SINCE 1972. IN CONCLUSION, COMIBOL'S (AND THIS COULD BE CONSIDERED TRUE FOR ALL THE TIN MINING INDUSTRY IN BOLIVIA) RESERVES ARE MAINTAINED CONSTANT FOR ABOUT 7 TO 8 YEARS FUTURE PRODUCTION. UNDERGROUND RESERVES ARE LIMITED (ONLY 37 PERCENT OF TOTAL RESERVES) AS COMPARED TO SURFACE RESERVES IN TAILINGS OF LOW-GRADE TIN WHICH IS DIFFICULT TO RECOVER. HIGH-GRADE ORE IS MAINLY PAST HISTORY AND ORE DEPLETION IS FORCING MINING COMPANIES TO TREAT LARGER VOLUMES AT HIGHER COSTS TO PRODUCE TONNAGE EQUAL TO FINE TIN PRODUCTION OF PAST YEARS. TO TREAT SURFACE RESERVES AND COMPLEX TIN ORES, AS WELL AS LOW GRADE ORES, COMIBOL HAS STARTED SEVERAL PROJECTS. USSR

TECHNOLOGY AND CREDITS WILL BE USED FOR TWO FUMING (VOLATILIZATION) TIN PLANTS. LA PALCA POTOSI FUMING PLANT WILL TREAT ABOUT 140,000 MT PER YEAR OF LOW-GRADE TIN TAILINGS AND WILL BE IN OPERATION IN LATE 1979. THE SECOND PLANT IN MACHACAMARCA - ORURO WILL BE DESIGNED AFTER EVALUATING LA PALCO'S RESULTS. THESE TWO FUMING PLANTS WILL BE THE LARGEST IN THE WORLD AND THE TECHNOLOGY TO BE USED HAS ONLY BEEN TESTED AT LABORATORY SCALE. A LARGE OPEN-PIT OPERATION IN THE CATAVI-SIGLO XX MINE IS UNDER STUDY TO MINE 60-80 MILLION MT WITH 0.31 PERCENT OF TIN. A JOINT VENTURE OPERATION WITH LONDON TIN IS ALSO UNDER STUDY TO MINE ALLUVIAL DEPOSITS. THE PRIVATE SECTOR HAS ALSO STARTED SEVERAL PROJECTS TO INCREASE RESERVES AND REDUCE RISING MINING COSTS DUE TO LOWER TIN GRADES. BUT, ALL THESE PROJECTS ARE LIMITED IF NO NEW EXPLORATION LIMITED OFFICIAL USE

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INCENTIVES ARE GIVEN TO INCREASE TIN RESERVES.

4. INVESTMENT PROBLEMS: MUCH OF BOLIVIA IS TIED UP IN FISCAL RESERVE AREAS HELD BY THE GOB. AN INTERESTED MINING COMPANY MUST NEGOTIATE A CONTRACT WITH THE GOB TO WORK IN THESE AREAS. HOWEVER, MOST OF THE AREAS WITH POTENTIAL FOR TIN RESOURCES ARE NOT LOCATED WITHIN GOVERNMENT RESERVE AREAS. BOLIVIA SUFFERS FROM LACK OF INFRASTRUCTURE SUCH AS POWER, ROADS, ETC., AND THE TOPOGRAPHY IS SO EXTREME THAT COSTS ARE HIGH AND WORKING CONDITIONS ARE DIFFICULT. APART FROM NEW DEPOSITS, THERE ARE KNOWN DEPOSITS NOT BEING WORKED. WHY?

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TIN PRICE, TAXES, INFRASTRUCTURE, YES BUT ALSO PERHAPS SOMETHING
IN THE PSYCHOLOGY OF THE LATIN AMERICAN ENTREPRENEUR THAT
DOES NOT VALUE RISK TAKING ESPECIALLY WHERE LARGE INVESTMENTS
ARE REQUIRED. SO THE SEARCH GOES ON FOR BONANZA DEPOSITS.
WOULD A HIGHER ITC FLOOR PRICE HELP BY REDUCING THE PERCEPTION
OF RISK? WE ARE DOUBTFUL. FINALLY, BOLIVIA'S HISTORY OF
POLITICAL INSTABILITY HAS NOT BEEN CONDUCIVE TO INVESTMENT IN
MINING WHERE RETURNS ARE OFTEN NOT REALIZED UNTIL AT LEAST
SEVERAL YEARS HAVE PASSED.

5. BOLIVIAN MINING TAXATION: NINETY PERCENT OF BOLIVIAN
MINING TAXES ARE COMPOSED OF THE ROYALTY AND EXPORT TAX.
THE ROYALTY IS CALCULATED BY DEDUCTING FROM THE MARKET
PRICE A PRESUMED COST OF PRODUCTION (\$1.80 FOR MEDIUM
MINERS) SET MOST RECENTLY BY THE GOB IN JANUARY 1976
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(A-9, JAN 1976). A SEPARATE SCHEDULE IS PUBLISHED FOR
COMIBOL, MEDIUM AND SMALL MINERS. AT PRICES ABOVE \$3.20
PER POUND, THE ROYALTY RATE IS 38 PERCENT. EXPORT TAXES ARE
A FLAT PERCENTAGE PAID ON CIF TIN PRICES AND VARY ACCORDING
TO THE MINING SUB-SECTOR AND GRADE OF TIN IN CONCENTRATES.
FOR EXAMPLE, COMIBOL AND THE MEDIUM MINERS PAY 7.5 PERCENT
AD-VALOREM FOR HIGH-GRADE (OVER 35 PERCENT TIN) CONCENTRATE
AND 6.5 PERCENT FOR MEDIUM AND LOW-GRADE. OTHER TAXES PAID
BY THE MINING COMPANIES ARE ANNUAL EXPLOITATION RIGHTS OR
LAND TAXES (ART. 62-MINING CODE). A COMPANY WITH 10,000
HECTARES PAYS TWELVE CENTS PER HECTARE PER YEAR. THE TAX
RANGES FROM SIX TO THIRTY CENTS DEPENDING ON CONCESSION SIZE.
THE MEDIUM MINERS AND SMALL MINERS ALSO PAY 1.1 PERCENT
AD-VALOREM TAX TO SUPPORT THE INSTITUTO DE INVESTIGACIONES
MINERO-METALURGICAS, A MINING/METALLURGICAL RESEARCH INSTITUTE.
ALL MINING COMPANIES INCLUDING COMIBOL PAY A .6 PERCENT
UNIVERSITY TAX. AN EXAMPLE OF THE AMOUNT OF TAX PAID PER POUND
OF TIN AND THE TAX AS A PERCENTAGE OF GROSS SALES ARE PRESENTED
BELOW FOR ILLUSTRATIVE PURPOSES.

PRICE	TAX	II MM	0.6 PCT	ROYALTY	EXPORT	PCT
PER	REGIME	1.1 PCT	UNIV.	TAX	OF	

POUND	TAX	TAX	GROSS			
SALE						
3.65	FULL	\$.04	\$.0219	\$.703	\$.274	28.5
RATE						
4.00	FULL	.044	.024	.836	.30	30.1
RATE						
5.00	FULL	.055	.030	1.216	.375	33.5
RATE						
3.65	1/2	.04	.0219	.352	.137	15.1
RATE						

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4.00	1/2	.044	.024	.418	.15	15.2
RATE						
5.00	1/2	.055	.030	.608	.188	17.6
RATE						

NOTE: GROSS SALES ARE SIMPLIFIED IN THIS EXAMPLE TO BE ONE POUND. THE HALF-TAX RATE IS THAT IN EFFECT TO ENCOURAGE NEW PRODUCTION. ITS CALCULATION HERE IS OVERSIMPLIFIED AND SOMEWHAT EXAGGERATED. A GOOD ECONOMIC MEASURE OF TAX INCIDENCE WOULD BE TOTAL TAX AS A PERCENTAGE OF BEFORE TAX PROFITS. HOWEVER, WE HAVE NO FIGURE FOR THE LATTER. WE CAN ASSUME AN AVERAGE COST PER POUND FOR MEDIUM MINER'S TIN PRODUCTION (INCLUDING COST OF SMELTING, TRANSPORT, INSURANCE, TEC.) OF \$3.40 PER POUND. IN THIS CASE THE TOTAL OF TAXES MENTIONED HERE (THERE ARE OTHER INDIRECT TAXES) WOULD BE 100 PER CENT OF BEFORE TAX PROFITS UNDER THE FULL-TAX REGIME WITH TIN AT \$5.00 PER LB.

NOTE: OTHER MINERALS BESIDE TIN ARE TAXED SIMILARLY. IN ADDITION, COMIBOL AND SOME PRIVATE MINING COMPANIES HAVE SOCIAL COSTS RESULTING FROM PROVISION OF COMMISSARY, SCHOOLS, HOSPITALS AND OTHER SOCIAL SERVICES. COMIBOL OPERATES UNDER RESTRAINTS AS FAR AS LAYING OFF WORKERS AND CLOSING LOW-GRADE, UNECONOMIC MINES. TAX INCENTIVES ARE OFFERED BY THE GOB TO STIMULATE NEW MINING PRODUCTION. AS ILLUSTRATED ABOVE, OVER-PRODUCTION FROM EXISTING MINES OR PRODUCTION FROM A NEW MINE BENEFITS FROM A 50 PERCENT REDUCTION OF THE ROYALTY AND EXPORT TAX FOR FOUR YEARS. OVER-PRODUCTION IS BASED ON MINE PRODUCTION IN 1972/1973 AND A NEW MINE MUST PAY 100 PERCENT TAX ON THE FIRST 33MT FINE TIN PRODUCTION AND ONE HALF ON THE REMAINDER. OTHER INCENTIVES OFFERED TO NEW MINING INVESTMENTS (BUT NOT ONLY TO THEM) ARE RELIEF FROM: PAYMENT OF INTEREST TAX; PAYMENT OF DIVIDEND TAX; PAYMENT FOR 10 YEARS OF FEDERAL, STATE AND MUNICIPAL TAXES ON NEW CONSTRUCTION; PAYMENT OF IMPORT TAXES ON MINING MACHINERY (BUT APPARENTLY NOT FOR ANYTHING PRODUCED IN ANDEAN COMMON MARKET.

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6. FOR THE GOVERNMENT OWNED COPANIES (70 PERCENT OF BOLIVIAN EXPORTS) THE LEVEL OF TAXATION CLEARLY DOES NOT ELIMINATE THE INCENTIVE TO INVEST SINCE THE OWNER'S TAKE IS BEFORE-TAX PROFITS, NOT AFTER-TAX PROFITS. HOWEVER, IN PRACTICE, STATE COMPANIES LIKE COMIBOL AFTER MAKING THE REQUIRED DISTRIBUTION OF PART OF PROFITS TO THEIR WORKERS, KEEP THE REMAINING PROFITS TO ADD TO THEIR ASSETS BY BUYING MACHINERY, ETC. THEY SIMPLY INFORM THE CENTRAL GOVERNMENT OF THE DISTRIBUTION OF THEIR PROFITS. COMIBOL, IS LIKE MANY LARGE ORGANIZATIONS, MOTIVATED BY A DESIRE TO GROW AND PERPETUATE ITSELF RATHER THAN STRICTLY BY A PROFIT INCENTIVE. FOR THE MEDIUM SIZED, PRIVATE MINERS, TAXATION IS ONE, AMONG SEVERAL FACTORS LIMITING NEW INVESTMENT. AS NOTED EARIER, THE SMALLER MINERS ARE INCREASING PRODUCTION.
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